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ABSTRACT

This report contains the results of an audit of selected financial management practices at the State University of New York (SUNY) at Brockport for the period April 1, 1992 through November, 30, 1994. The objectives of the audit were to determine whether SUNY Brockport instituted an adequate system of internal controls over the funds received and disbursed, and over equipment assets to prevent their loss or theft. To accomplish these objectives, the university's policies and procedures, applicable rules and regulations, and appropriate documentation were reviewed, and university management and staff were interviewed. The audit identified significant weaknesses in the internal controls relating to cash collections and disbursements and equipment inventories. Recommendations are offered for all areas under the audit scope. No significant instances of noncompliance with relevant laws, rules and regulations were found. Two appendices list the major contributors to the report and contain the comments of SUNY officials to the audit findings. (Author/JPB)

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Management Audit

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State of New York
Office of the State Comptroller

Division of Management Audit

Report 95-S-32

Dr. Thomas A. Bartlett
Chancellor
State University of New York
State University Plaza
Albany, NY 12246

Dear Dr. Bartlett:

The following is our audit report on selected financial management practices of the State University of New York College at Brockport.

This audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit

June 4, 1996

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Executive Summary

State University of New York College at Brockport Selected Financial Management Practices

Scope of Audit

The State University of New York College at Brockport (SUNY Brockport) offers programs in arts, humanities, social sciences, sciences and professional studies at both the baccalaureate and masters levels. During the year ended March 31, 1994, SUNY Brockport collected more than $37 million in revenues and made disbursements totaling $11.4 million. SUNY Brockport reports an equipment inventory of nearly 9,000 items valued at $16 million.

Our audit addressed the following questions about SUNY Brockport's internal controls over cash and equipment:

- Do the controls provide adequate assurance that all cash collections are deposited into authorized bank accounts and all cash disbursements are authorized?

- Do the controls provide adequate assurance that equipment is safeguarded against loss and theft?

Audit Observations and Conclusions

We found that improvements are needed in SUNY Brockport's internal controls over cash collections, cash disbursements, and equipment inventories.

The SUNY Brockport Bursar's Office collects tuition and other student charges which comprise most of the college's revenue. A goal of the Bursar's Office is to provide students with a single location for resolving collection matters. To help achieve this goal, the Bursar's Office permits several staff to both access cash and use computerized systems to adjust student charges. To compensate for the control risk that results from this lack of separation of duties, the Bursar's Office relies on management's review of computer reports of account adjustments. However, we found no documentation that these reviews are regularly performed. This control weakness needs to be corrected. We further recommended that SUNY Brockport minimize the number of Bursar's Office employees who handle cash and also have the capability to change charges. (See pp. 3-5)

We also identified weaknesses in cash controls at locations outside the Bursar's Office. At some locations, press-numbered cash receipts are not issued and cash deposits are not independently reconciled to records of cash receipt. At one such location, we could not account for an

estimated $1,800 in fees collected over a one-year period. Moreover, contrary to requirements, the cash collected at this location was not deposited into an authorized State bank account and account records did not indicate how disbursements of $2,329 were used. We recommended that SUNY Brockport officials take steps to ensure that all fees are properly deposited and accounted for. (See pp. 7-9)

Cash disbursements made by SUNY Brockport include refund transactions to students resulting from changes in enrollment status and exchange transactions which occur when funds from loans, scholarships and financial aid exceed a student's bill. We found that refund and exchange checks are issued by cashiers without an independent review by any other employee. Because of this weakness, unauthorized disbursements are less likely to be prevented. We recommended that an independent review take place prior to the release of a check. (See p. 6)

SUNY Brockport is required to annually compare equipment inventory records to the equipment on hand to ensure that all the equipment owned by the college can be accounted for. We found that, while such a procedure is performed, improvements are needed in the procedure to ensure that it is effective. We selected 126 items listed on the inventory records for verification, but were unable to locate 14 of these items with a total value of $19,173, including three computers and two printers. Also, during the year ended March 31, 1994, SUNY Brockport removed $190,000 of equipment from its inventory records because the equipment could not be accounted for. One department alone lost 105 items in the interval between annual inventories, including $115,000 in computer equipment. We made several recommendations to improve controls over equipment. (See pp. 11-13)

Comments of SUNY Officials

SUNY officials believe that existing controls are adequate in that they represent the best efforts of SUNY Brockport to provide services to their students with available resources. They do recognize that improvements are needed over cash collections at peripheral sites and indicate they have already made progress toward this end.

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Introduction

Background

The State University of New York College at Brockport (SUNY Brockport) is a college of arts and sciences which offers programs in arts, humanities, social sciences, sciences and professional studies at both the baccalaureate and masters levels. In addition, SUNY Brockport offers certificate programs in selected professional areas. SUNY Brockport became part of the State University of New York (SUNY) in 1948 and is situated on a 591-acre tract in the Village of Brockport, which is located about 16 miles west of Rochester.

During the 1993-94 academic year, SUNY Brockport reported an average enrollment of about 6,900 undergraduates and 1,800 graduate students. SUNY Brockport's operating expenditures for the 1993-94 fiscal year totaled approximately $53.6 million, including $38 million in personal service costs for 1,200 employees. During that period, SUNY Brockport collected more than $37 million in revenues and made disbursements totaling $11.4 million. SUNY Brockport reports an equipment inventory of nearly 9,000 items valued at $16 million.

Audit Scope, Objectives and Methodology

We audited selected SUNY Brockport financial management practices for the period April 1, 1992 through November 30, 1994. The objectives of our audit were to determine whether SUNY Brockport instituted an adequate system of internal controls over the funds received and disbursed, as well as over equipment assets to prevent their loss or theft. To accomplish our objectives, we reviewed SUNY Brockport's policies and procedures, applicable rules and regulations, and appropriate documentation. We also interviewed SUNY Brockport management and staff.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of SUNY Brockport which are included within our audit scope. These standards require that we review and report on SUNY Brockport's internal control structure and its compliance with those laws, rules and regulations that are relevant to those operations that are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest probability of needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient and effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Internal Control and Compliance Summary

We identified significant weaknesses in the internal controls relating to cash collections and disbursements and equipment inventories. These weaknesses are described in the sections of this report entitled "Bursar's Office Cash Controls," "Peripheral Cash Collection Controls," and "Equipment Controls." We identified no significant instances of noncompliance with relevant laws, rules and regulations.

Response of SUNY Officials to Audit

A draft copy of this report was provided to SUNY officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University of New York shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Bursar's Office Cash Controls

At SUNY Brockport, the Bursar's Office is the primary cash receipt location. The Bursar's Office processes all student payments and receives funds transferred from other campus cash collection locations. During the fiscal year ended March 31, 1994, SUNY Brockport deposited over $37 million in its general bank account. The Bursar's Office processed most of these funds.

In addition to processing cash receipts, the Bursar's Office also processes cash disbursements associated with student accounts. These disbursements include refunds resulting from changes in student enrollment status and the application of financial aid, loans and scholarships to student accounts. During the fiscal year ended March 31, 1994, the Bursar's Office issued checks totaling $11.4 million.

SUNY Brockport management has a responsibility to establish an effective internal control system over cash received and disbursed. We reviewed the internal control system over cash receipts and disbursements used at the Bursar's Office and found that improvements are needed in this system.

Cash Receipt Controls

An effective internal control system provides reasonable assurance that all cash which should be received is actually received and is promptly recorded and deposited. In order to provide this assurance, duties related to the handling of cash should be separated from duties related to the recording of receipts. This control feature helps to prevent employees from misappropriating cash and adjusting the related accounting records.

However, we found that some employees who have access to the accounting records also handle cash. For example:

- Ten employees in the Bursar's Office with accounting duties have the ability to use the computer to make changes to the charges for tuition, rooms and meals. At some point during the year, most of these employees fill in for cashiers and therefore handle checks and currency while having the capability to change charges.

- An employee in the Financial Aid Office, the Bursar's Office secretary, and several computer programmers have the ability to use the computer to change charges for tuition, rooms and meals. We believe these employees do not need this capability to perform their duties. Moreover, because the Bursar's Office secretary processes mail, she has access to all the checks received through the mail while also having the ability to change charges.

- The manager of the Bursar's Office can also use the computer to change student charges. While such capability is appropriate for the manager, she also handles cash because she prepares the cash collections for deposit into the bank.

- The three cashiers in the Bursar's Office also have the capability to use the computer to adjust the amounts recorded for health fees, for alumni fees, and for several miscellaneous charges.

SUNY Brockport officials told us that, as part of their overall efforts to improve the efficiency of Bursar's Office operations and better meet the needs of students, all Bursar's Office employees are given the capability to change student charges. Differing levels of such capability are assigned to employees based on their specific duties. However, we believe that SUNY Brockport officials should reevaluate this decision. The greater the number of employees who can change student charges, and also handle cash, the greater the likelihood that accounts can be improperly adjusted without detection.

A large portion of the cash received by the Bursar's Office arrives through the mail. Cash received through the mail should be recorded as soon as the mail is opened, and the recording should be done by someone who handles no other cash and has access to no accounting records. Further, the cash should be recorded before the funds are turned over to cashiers for processing. These procedures reduce the risk that unrecorded receipts can be diverted.

However, the Bursar's Office does not make a record of cash received in the mail and regularly turns unrecorded funds over to cashiers for processing. Therefore, SUNY Brockport risks the diversion of unrecorded receipts. Our prior audit at SUNY Brockport (Report 89-S-58), issued in May 1990, pointed out this control weakness. However, SUNY Brockport management did not correct this weakness as recommended by the prior report. SUNY Brockport officials have indicated to us that they plan to correct this weakness by instituting a lockbox system in which payments are sent directly to a bank.

Accounting records must sometimes be adjusted to correct for errors. These adjustments must be carefully controlled to prevent unauthorized adjustments. Therefore, all account adjustments should be independently reviewed by management to ensure that they are authorized and otherwise appropriate.

SUNY Brockport officials told us that adjustments to the accounting records are summarized in a separate record and made available to independent managers. However, we found no documentation that these adjustments are regularly reviewed. As a result, unauthorized and otherwise inappropriate adjustments are less likely to be detected. SUNY officials indicated that adjustments are regularly reviewed and that procedures will be instituted to document them.

During our audit, we found that cashiers in the Bursar's Office also made adjustments to the accounting records that had the effect of reducing the amount of cash recorded as received without establishing corresponding accounts receivable. Until we brought this matter to the attention of SUNY Brockport officials, they were unaware of the increased control risks created by the use of this function. The officials have since denied the cashiers access to this computer function (which is called the cash-back function). However, improvements are still needed in the procedures used to review account adjustments. We noted that the separate record of account adjustments is not detailed enough to permit as thorough a review as is needed.

Recommendations

1. Assign capability to change charges only to those employees who need such capability to perform their duties.

2. Minimize the number of employees who handle cash and also have the capability to change charges; and concurrently strengthen the independent review of account adjustments.

3. Make a record of the cash that is received in the mail as soon as the mail is opened and before the funds are given to the cashiers for processing.

Disbursement Controls

Cash disbursements made by SUNY Brockport include refund transactions to students resulting from changes in enrollment status and exchange transactions which occur when funds from loans, scholarships and financial aid exceed a student's bill. If cash disbursements are to be adequately controlled, they should not be made by individuals who also collect cash or have access to the related accounting records. In addition, checks should not be issued without an independent review of the supporting documentation.

At SUNY Brockport, cash disbursements can be made by any employee in the Bursar's Office, including the three cashiers. Moreover, the employees in the Bursar's Office handle cash and have the capability to change student charges. When a student is due a refund, the Bursar and other authorized employees approve the refund transaction. However, the employee who is acting as cashier routinely prepares the check using the check signing machine. The check is not reviewed by any other employee to ensure that the payment is appropriate. As a result of this control weakness, unauthorized disbursements are less likely to be prevented.

SUNY Brockport officials believe that their current practices provide reasonable assurance that check disbursements are properly authorized and processed. We are concerned that the approval takes place before the checks are prepared and the cashier who prepares the check has the capability to change student charges. We continue to recommend that checks be independently reviewed after they are prepared and before they are distributed.

Recommendations

4. Ensure that employees who make cash disbursements do not handle cash collections or have the capability to change student charges.

5. Independently review checks against supporting documentation before distributing the checks.

Peripheral Cash Collection Controls

Cash on college campuses is also collected at sites other than the Bursar's Office. During 1993, we audited cash collection controls at such peripheral sites on selected campuses throughout the SUNY system (Report 94-S-27), including five peripheral cash collection locations at SUNY Brockport. We identified control weaknesses at each SUNY Brockport location reviewed.

We interviewed SUNY Brockport officials to determine whether SUNY Brockport has taken action to improve cash collection controls on campus, particularly at the five locations mentioned in the prior report. We found that SUNY Brockport has taken positive steps to improve controls, including realigning internal control responsibilities, establishing an internal audit function, and taking a survey to identify all peripheral cash collection locations. In addition, SUNY Brockport issued a directive to campus cash managers outlining minimum cash control requirements. Each cash collection location was to implement the directive's requirements by August 1, 1994.

At the time of this audit, SUNY Brockport was in the process of evaluating controls at the five locations mentioned in the prior report. Accordingly, we did not include these locations in this audit. Instead, we audited cash collection controls at five other peripheral locations. Our intention was to verify that each location has appropriate cash controls and to determine the extent to which the locations have implemented the requirements of the administrative directive.

Our review showed that, while most cash managers are aware of the directive and its requirements, little is being done to implement the directive's requirements. We found that four of the five locations that we reviewed still do not have appropriate cash controls. We also found that SUNY Brockport has not identified all of the campus locations that collect cash. As a result, SUNY Brockport has limited assurance that cash managers at peripheral locations properly record and deposit all cash collected. In fact, at one location, we could not account for all of the cash that should have been collected.

During the year ended June 30, 1994, cash collections of $731,832 were reported by the five locations that we examined. The collections ranged from $1,894 at one location to $313,069 at another. The five locations collected payments made for examination fees, theater tickets, health insurance premiums, services provided by SUNY Brockport in support

of outside grants, and other miscellaneous services provided by SUNY Brockport.

In order to provide reasonable assurance that all the cash received at a location is deposited in the bank, press-numbered receipts should be issued to each person who makes a payment. In addition, the cash deposited in the bank should be reconciled to the records of the cash received by someone independent of the cash collection process.

We found that the cash collection controls are adequate at one of the five locations we examined. This location reported collections of $250,662 during the year ended June 30, 1994. However, at three of the other four locations, press-numbered cash receipts are not issued, and such receipts are not always issued at the fourth location. At all four locations, cash deposits are not independently reconciled to records of cash receipt.

In addition, cash processing duties are not adequately separated at one location, as a single employee receives payments, deposits the payments in the bank, and maintains records of the payments received. The work of this employee is not verified by anyone else. During the year ended June 30, 1994, $77,944 in health insurance premiums was reportedly collected by this employee.

Controls were especially weak at one location. At this location, individuals were charged $25 for taking examinations. During the year ended June 30, 1994, $1,894 in examination fees was reportedly paid. According to SUNY guidelines, such payments should be deposited into a State account. However, these payments were deposited in a bank account that was not authorized by the State. We reviewed the transactions in this account and found that the funds were used to cover the costs of administering the examinations, as well as to purchase refreshments, equipment and supplies. Moreover, account records did not indicate the purposes of disbursements of $2,329 made between January 2, 1991 and March 9, 1994.

We further found that the staff at the above location did not make any deposits between October 10, 1991 and October 4, 1992. According to the relevant records, during this period examinations were given to 72 people. Some of these examination fees may have been deposited after October 1992, but we estimate that as much as $1,800 in fees was not deposited.

When we reported our findings about this account to SUNY Brockport officials, they told us they would take control of the funds and suspend the examination fees until a proper course of action could be determined.

If cash collections on campus are to be effectively controlled, each cash collection location must be identified. In 1994, SUNY Brockport officials conducted a survey of the campus and identified 25 locations where cash is collected. However, four of the five locations that we examined, as well as at least three other cash collection locations, were not identified by this survey. (SUNY Brockport officials indicate they are addressing these control weaknesses.)

Recommendations

6. Ensure that press-numbered receipts are issued whenever cash is collected.

7. Ensure that all cash deposits are reconciled to the records of cash received by someone independent of the cash collection process.

8. Deposit the examination fees into an authorized State account.

9. Assure that examination fees are properly deposited and accounted for.

10. Ensure that all cash collection locations have been identified.

Equipment Controls

SUNY Brockport reports an equipment inventory of nearly 9,000 items valued at $16 million. SUNY Brockport maintains its equipment records on SUNY's computerized Property Control System. Our review showed that SUNY Brockport must improve controls over equipment to better safeguard the equipment against loss or theft.

Independent Annual Inventory

Guidelines published by the Office of the State Comptroller (OSC) and SUNY require campuses to complete independent annual inventories. While SUNY Brockport does conduct annual inventories, improvements are needed in certain aspects of these inventories, such as their independence, to ensure that they are effective.

For example, since 1993 SUNY Brockport has relied on each department to verify its own inventory with independent follow-up by the Property Control Office. However, we found that these follow-up reviews are not timely: as of November 30, 1994, the Property Control Office had followed up on the annual inventories of only 9 of the approximately 100 departments. In addition, these reviews included only a limited number of items at each department and were not expanded even when a high percentage of items were missing in a department. Therefore, we believe that SUNY Brockport's follow-up reviews are of limited value in controlling the equipment inventory.

We also noted that, as of November 30, 1994, 17 departments had yet to certify their 1994 equipment inventories, which should have been certified by May 1994, and 23 other departments did not make any changes when they certified their 1994 inventories. In order to test whether the equipment at these 40 departments was accurately recorded on the inventory records, we judgmentally selected 126 items from six departments that had not certified their 1994 inventories and from three departments that did not make any changes to their 1994 inventories.

We could not locate 14 items, including three computers and two printers, with a total value of $19,173. Eleven of these items belonged to departments that had not certified their inventories. In addition, a missing typewriter and a computer terminal belonged to a department with only seven inventory items. This department had certified the inventory without making any corrections. However, when we visited the department, officials told us they had not seen the two missing items "in a while." Of the 112 items that we located, 20 were in locations

other than the locations listed on the inventory records; six of these items were in different buildings. Most of these recording errors were from departments that had not certified their inventories.

If the equipment at SUNY Brockport is to be adequately controlled, equipment managers should be aware of proper equipment procedures and the importance of equipment controls. A 1992 internal audit report issued by SUNY recommended that SUNY Brockport prepare an equipment procedures manual. SUNY Brockport has not complied with this recommendation, although they report that the manual is complete and awaiting approval by the Vice President for Administrative Services. In addition, department chairpersons have not received training on equipment procedures and the importance of equipment controls. We believe the absence of a manual and training in equipment controls may have contributed to the control weaknesses we identified.

SUNY Brockport officials recognize that there are certain areas in need of improvement, but believe the system in place is sufficient in today's environment of severely constrained budgets. We believe this decision should be reviewed. The equipment inventory system at SUNY Brockport results in unreliable information. As a result, SUNY Brockport managers do not have adequate information upon which to make informed decisions about equipment needs.

Recommendations

11. Improve the accuracy of the inventory records. To help bring about this improvement, increase the extent to which the annual inventories are either conducted or verified by independent personnel.

12. Develop an equipment procedures manual and train equipment managers in equipment controls.

Accountability for Equipment

SUNY Brockport assigns administrative responsibility for equipment to department chairpersons. However, these persons are not held accountable for missing items and for complying with annual inventory requirements. For example:

- One department reportedly lost 105 equipment items since its last inventory. The missing items included about $115,000 in computer equipment, some purchased as recently as 1993.

Department officials were asked by SUNY Brockport management to explain how so much equipment could be lost, but they did not respond to this request. Nevertheless, in 1994, SUNY Brockport purchased about $29,000 of new computer equipment for this department.

- In 1994, two other departments each reported that more than $40,000 worth of equipment could not be accounted for. We found no indication that SUNY Brockport management required department officials to explain how so much equipment could be lost.

- Administrative action was not taken to address the fact that 17 departments did not certify their 1994 inventories. Some of these departments have the largest equipment inventories on campus, such as the Plant Management Department, with equipment inventory valued at over $7 million.

When individuals are not held accountable for equipment, they have less incentive to properly safeguard the equipment.

Recommendations

13. Require explanations for missing equipment.

14. Investigate the equipment missing from the three departments.

15. Take steps to ensure that departments comply with annual inventory requirements.

Reporting Stolen or Lost Equipment

Section 7.0200 of the New York State Accounting System User Procedure Manual requires the prompt reporting of all missing equipment to OSC. From September 30, 1992 to March 31, 1994, SUNY Brockport reported to OSC that 30 equipment items costing over $19,000 had been stolen. However, we determined that, between April 1, 1993 and March 31, 1994, SUNY Brockport removed $190,000 of equipment from its records because the equipment could not be accounted for. This equipment also should have been reported to OSC. The full amount was not reported to the State Comptroller because SUNY Brockport only reports items that are reported to its Department of Public Safety as stolen. By not summarizing the equipment that cannot be accounted for

and reporting this equipment as missing, SUNY Brockport managers understate the extent to which equipment is lost and stolen.

Recommendation

16. Report all unaccounted for equipment to the Office of the State Comptroller.

Major Contributors to This Report

David DeStefano
Frank Houston
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Karen Bogucki
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Appendix A

STATE UNIVERSITY OF NEW YORK

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OFFICE OF THE STATE COMPTROLLER
ROBERT H. ATTMORE
DEPUTY COMPTROLLER

OCT 12 1995

MGMT. AUDIT &
FINANCIAL REPORTING

October 11, 1995

Mr. Robert H. Attmore
Deputy Comptroller
Office of the State Comptroller
The State Office Building
Albany, New York 12236

Dear Bob:

In accordance with Section 170 of the Executive Law, we are enclosing the comments of the State University of New York College at Brockport and SUNY System Administration regarding the draft audit report on Selected Financial Management Practices, State University of New York College at Brockport (95-S-32).

Sincerely,

William H. Anslow
Senior Vice Chancellor
for Finance and Management

Enc.

State University College at Brockport Comments

As a State agency, we have endeavored to maximize use of resources to provide efficiency in operations as well as quality customer service. In this effort, we have adapted principles of business redesign/re-engineering to develop efficient, yet effective processes that are functioning with an adequate system of internal controls and acceptable levels of risk. We believe our controls reasonably assure accountability and safeguarding over collection and disbursement of funds and equipment inventories. We realize additional improvements are needed over cash collections at some peripheral sites, although the College has already made substantial progress to enhance controls and accountability of peripheral collections.

Page 3

While the draft audit report states that, "...more employees than necessary have access to the accounting records...", there is no objective benchmark cited as to how many employees ideally should be granted access to the records. At Brockport we have assigned our limited staff responsibilities in order to provide service to our students in the most effective and controlled (in terms of providing reasonable safeguards of State resources) manner. Further, an audit trail exists for every transaction affecting student accounts.

• Note

Page 4

The draft audit report states:

> "SUNY Brockport officials told us that, as part of their overall efforts to improve the efficiency of Bursar's Office operations and better meet the needs of students, all Bursar's Office employees were given the capability to change student charges. However, we believe that SUNY Brockport officials should periodically reevaluate this decision. When more employees than necessary can change charges, and some of these employees also handle cash, there is more likelihood that accounts can be improperly adjusted without detection."

• Note

Different levels of access were assigned so employees could only make adjustments as determined appropriate for their specific duties. Furthermore, our decision to extend limited charge capability to persons handling cash was carefully considered. Our financial management staff are advocates of the concepts of business re-engineering, process redesign, and quality management. We have assessed the impact upon student traffic flow and Bursar's Office workload in connection with the adjustment of minor charges. Based on extensive management experience we have concluded that the potential financial risk is minimal and is far outweighed by increased efficiency and productivity, as well as a much greater level of customer service. After appropriate consultation with upper level management, limited transaction capability was given to employees handling cash.

• See State Comptroller's Note, Appendix B-12

Page 5

The draft audit report states:

> "Accounting records must sometimes be adjusted to correct for errors. These adjustments must be carefully controlled to prevent unauthorized adjustments. Therefore, all account adjustments should be independently reviewed by management to ensure that they are authorized and appropriate."
>
> and,
>
> "SUNY Brockport officials told us that adjustments to the accounting records are summarized in a separate record and made available to independent managers. However, we found no documentation that these adjustments are regularly reviewed. As a result, unauthorized and otherwise inappropriate adjustments are less likely to be detected."

As was explained to the auditors, these adjustments are regularly reviewed. However, our procedures did not require that individual copies of the adjustments be signed and dated on the date of their review. The fact of the matter is that a regular review is (and has been) performed which makes it almost impossible for inappropriate adjustments to go undetected. Our internal control in this regard is more than adequate. Nevertheless, procedures will be instituted to document evidence of managements review of adjustment records.

The draft audit report states:

> "During our audit, we found that cashiers in the Bursar's Office made adjustments to the accounting records that had the effect of reducing the amount of cash recorded as received without establishing corresponding accounts receivable. Until we brought this matter to the attention of SUNY Brockport officials, they were unaware of the increased control risks created by the use of this function. The officials have since denied the cashiers access to this computer function (which is called the cash-back function)."

The cash back function was intended for use in recording cash change given back to customers upon receipt of payments. Cashiers were under instructions not to use the cash back function. The isolated instance(s) where a cashier made adjustments were quickly discovered by the Bursar Office Manager during the reconciliation process and the cashier was instructed accordingly.

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The draft audit report states:

> "At SUNY Brockport, cash disbursements can be made by any employee in the Bursar's Office, including the three cashiers. Moreover, all the employees in the Bursar's Office handle cash and have the capability to change student charges. When a student is due a refund or otherwise makes an overpayment, the employee who is acting as cashier routinely prepares the check using the check signing machine. The check prepared by the cashier is not reviewed by any other employee to ensure that the payment is appropriate."

• Note

In response, it should be understood that an exchange transaction occurs when an amount received is greater than the amount due, resulting in a disbursement which is calculated by the computer. Refunds are prepared and reviewed/approved by two employees independent of the employee writing the check. The value of adding a further level of verification does not, in our opinion, justify the time and effort involved, considering that the customers themselves do provide a backup control in the event that an erroneous transaction was made to their account.

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With regard to the review of the peripheral cash collection locations, the College is aware of the importance of maintaining adequate cash controls. The Internal Control Officer is pursuing a program of meeting with department heads to individually discuss internal control matters, and making arrangements for a cash control training session for all cash managers in the upcoming fall semester. Additionally, follow-up reviews of cash collection sites by the internal review function continue to be conducted in accordance with review priorities assigned to all assessable units.

Pages 10-12

We recognize that there are certain areas in need of improvement of our equipment controls, such as timeliness of department equipment inventories. We feel confident that the system in place has worked and will continue to work for us. The findings are based on a sampling of 126 assets out of an inventory of over 9000 items. This amounts to less than 2 percent of the entire inventory.

In today's environment of severely constrained budgets (and the need to do more with less while providing the best possible service to clients) we can ill-afford to devote staff to activities/tasks that add little value to accomplishing our mission. In the competitive business environment there are numerous examples of highly successful organizations dramatically altering their business practices to streamline operations, and cut costs, to increase profitability and productivity while maintaining the same (or better) service to their clientele. While we don't propose that we reduce our internal controls, as managers we do reserve the right to make reasonable and calculated adjustments to our

• See State Comptroller's Note, Appendix B-12

business processes in order to balance the need to serve our students as well as safeguard State resources with the funding available to staff the business functions. We at Brockport believe we are working towards that goal and have designed our systems with the flexibility to provide reasonable assurances that our controls are adequate.

Recommendations (page 5)

(OSC) 1. Assign the capabilities to change charges only to those employees who need such capability to perform their duties.

(SUCB) 1 We do grant access to our accounting records only to those employees needing such access in the performance of their duties. Since all employees in the Bursar's Office are required to adjust accounts as part of their assigned duties, and student account records are maintained on computer, computer access is required. Additionally, different levels of access were assigned so employees could only make adjustments as determined appropriate for their specific duties. There are more than adequate safeguards in place to prevent employees from improperly adjusting accounting records. In the event of an unauthorized adjustment by any employee it would be detected by the Bursar Office manager during the daily reconciliation process and review of cash drawer reports which identify all adjustments by operator ID. Our current internal control system is effective in that it provides reasonable assurance that all cash received is promptly and accurately recorded and deposited.

(SU) 1. We agree with the recommendation and the College's response.

(OSC) 2. Minimize the number of employees who handle cash and also have the capability to change charges; and concurrently strengthen the independent review of account adjustments.

(SUCB) 2. Based on our extensive, professional experience in the management of a student cashiering/receivable operation, we believe that the number of employees handling cash and their access to accounting records is appropriate. Employees handling cash only have limited ability to adjust minor charges. The decision to extend limited charge capability to persons handling cash was carefully considered by our financial management team. Our Assistant to the Vice President for Student Financial Services has studied the concepts of business re-engineering, process redesign, and quality management. He has also assessed the impact upon student traffic flow and Bursar's Office workload in connection with establishing procedures for the adjustment of minor charges. The development of our accounting and control systems also involved extensive input from our College

Accountant, Assistant Vice President for Information Technology Services, Director of Administrative Computing, Budget Control Officer and other operationally knowledgeable and experienced professional staff. The conclusion was that any potential financial risk was extremely minimal and was more than offset by increased operating efficiency and enhanced customer service. After appropriate consultation with upper level management, the limited transaction capability was given to employees handling cash. Furthermore, the Bursar's Office has strengthened the independent review of account adjustments by generating an enhanced daily cash drawer report, which includes detail of all account adjustments by operator ID. This detailed cash drawer report is reviewed and utilized by the Bursar's Office Manager for daily reconciliations, and is also reported to the Accounting Office.

(SU) 2. We agree with the College's response.

(OSC) 3. Make a record of the cash that is received in the mail as soon as the mail is opened and before the funds are given to the cashiers for processing.

(SUCB) 3. Our opinion holds that a separate recording of cash received in the mail before funds are forwarded to cashiers for processing would not serve as a cost-effective or efficient control measure for our circumstances. The Bursar's Office, however, has eliminated the processing of mail receipts and has successfully implemented a lockbox system with a local bank. Mail payments are delivered from the post office lockbox directly to bank employees for processing and deposit of payments.

(SU) 3. We agree with the recommendation and the College's response.

Recommendations (Page 6)

(OSC) 4. Ensure that employees who make cash disbursements do not handle cash collections or have the capability to change student charges.

(SUCB) 4. In order to provide appropriate customer service, we find that both disbursement and collection functions need to be performed by the Bursar's Office. However, we have separated these functional responsibilities within this office to the extent possible. Cash disbursements for student refunds are initiated by department staff other than those performing cashiering activities. These disbursements are reviewed at the supervisory level and approved. Occasionally, cashiers do issue exchange checks for transactions they perform for customers (as would be the case in a commercial retail cashiering function). Exchange transactions performed by cashiers at the window have the check issuance amount calculated by the software and pre-entered on the check issuance screen. Exchange transactions are performed

in the presence of the customer who receives a receipt showing the amount(s) rendered by payment source and the exchange check amount issued. Exchange check transactions, which were once numerous under the Federal Family Education Loan Program, have virtually been eliminated since Brockport began participating in the Federal Direct Lending Program. Neither refund nor exchange checks can be issued without entering a valid student account or vendor number. These transactions are recorded in detail on the cash drawer report, which is utilized by the Office Manager daily. All disbursements are reported independently to the Accounting Office. Additionally, check stock and signature impressions are accounted for daily. We have found this process to be effective and efficient.

(OSC) 5. Independently review checks against supporting documentation before distributing the checks.

(SUCB) 5. As described in our response to recommendation 4, we already provide reasonable assurance that check disbursements are authorized and appropriately processed.

(SU) 4,5. We agree with the recommendations and the College's responses.

Recommendation (Page 9)

(OSC) 6. Ensure that press-numbered receipts are issued whenever cash is collected.

(OSC) 7. Ensure that all cash deposits are reconciled to the records of cash received by someone independent of the cash collection function.

(SUCB) 6,7. The timing of this audit by the Office of the State Comptroller (OSC) was initiated before it had issued the final report for a previous audit of peripheral cash collection locations (Audit #94-S-27). This current audit had shortly followed the College's decision to implement recommendations from the prior report, and to hire an Internal Systems Analyst.

Independent of any of the current audit discussions or recommendations, the College had already recognized the importance of enhancing cash controls and had taken actions to ensure uniformity and accountability of collections at peripheral collection sites. Administrative directives on cash controls, including the use of pre-numbered receipts and independent reconciliations, were distributed to campus cash managers as a means to address prior report recommendations. Full compliance with some of our internal directives and controls has not been achieved in some collection sites. This cannot be attributed to resistance by the departments, but rather the need for additional instruction and difficulties faced with staff shortages. The Internal Control Officer is pursuing a program of meeting with

department heads to individually discuss internal control matters, and making arrangements for cash control training sessions for all cash managers in the upcoming fall semester. Additionally, follow-up reviews of cash collection sites by the internal review function continue to be conducted in accordance with review priorities assigned to all assessable units.

Since the close of the recent audit (and resulting from a management initiative developed prior to and independent of the audit), the College has centralized collections at the Bursar's Office for those peripheral collections determined to be reasonable, including student telephone payments and parking permits and fines. We continue to explore possibilities to enhance automation of collection and receipt issuance at other peripheral collection locations. In addition, the cash collection locations reviewed in the audit had taken prompt action to resolve control weaknesses when identified in the audit report. Three of the collection sites have since reported that corrective actions have been implemented. One location is still in the process of achieving full compliance as a result of administrative transition, but will finalize new procedures by the start of the fall semester.

Overall, we believe the College has made substantial progress to improve cash collection controls. The College will continue its efforts to evaluate and enhance cash controls for current and new peripheral cash collection sites.

(OSC) 8. Deposit the examination fees into an authorized State account.

(OSC) 9. Assure that examination fees are properly deposited and accounted for.

(SUCB 8,9. The proceeds were deposited into an IFR account established specifically to account for the examination fees, and evidence of our corrective action was provided to the auditors before their departure.

(OSC) 10. Ensure that all cash collection locations have been identified.

(SUCB) 10. The assessment survey administered in 1994 as part of our internal control program has proven to be a powerful tool in identifying peripheral cash collection sites. Not all campus collection sites, however, were identified at the time of the auditors review since several of the assessable units had not yet returned the survey. The draft audit failed to note that our survey of assessable units was extremely successful at the time of the audit field work. We had, through our routine internal control process, achieved a success rate of 90% in terms of survey completion as only 10 of the 98 assessable units had not returned their surveys and thus warranted follow-up work. The auditors had reported that four of the five locations examined, and three other collection locations were not identified by surveys. As

we informed the auditors, all of these locations, with the exception of one, had not returned the assessment survey for our identification. Nevertheless, the Internal Control Officer has updated our listing of identified collections sites, and will do so on a continuous basis. Any additional methods to identify peripheral cash collection sites will be performed, if determined to be effective by the Internal Control Officer.

(SU) 6-10. We agree with the recommendations and the College's responses.

Recommendations (Page 11)

(OSC) 11. Improve the accuracy of inventory records. To help bring about this improvement, increase the extent to which the annual inventories are either conducted or verified by independent personnel.

(SUCB) 11. The Property Control Manager reviews the returned inventories and makes the determination as to which property will be independently reviewed by the Property Control Department. Unfortunately, staffing and time play an important role in determining the number of assets and the number of departments to be audited.

We do believe that the reviews that we have conducted are of great value. The number of overall inspections actually conducted, thus far, although relatively small in number, has proven to be a great contribution to the system in increasing user departments awareness regarding management expectations.

The Property Control Manager maintains a continuous dialogue with each department that does not return inventories by the requested due dates. Only 17 of 127 departments had not returned their inventories by the dates requested. Fifteen of these departments had requested and were granted extensions, and the extended due dates were met. (Two reported that they had completed and forwarded their inventories. Photocopies have since been submitted.) The due date for the inventories is arbitrary. We can and do extend that date to comply with department requests to allow for ever-changing and varied workloads for specific departments.

Of the 14 randomly selected items, which were not located at the time of the initial inspection by the auditor, seven have been since located, two of which are printers. Of the 20 items that were found at a location other than as indicated on the PCS, our records have been updated to reflect the current locations. Several of these items move on a continual basis (i.e., computer equipment, floor scrubbers, calculators). It is very difficult to know or control the exact location of the items at all times.

Equipment Managers have had adequate training in property control and they have on a continual basis contacted the Property Control Manager's office to obtain valuable information regarding transfers, surplus property, disposal of equipment, etc.

Although an independent inventory is desirable, staffing has precluded this from being accomplished in the past. Current staffing levels will not allow for this level of effort in the future. Property Control is currently staffed by one Grade 6 Calculations Clerk position which is supervised by the Purchasing Office. We would have to devote at least five full-time staff to annually inventory each of the 9,000+ trackable items. Furthermore, the cost of reassigning staff for the purpose of conducting a complete annual inventory would greatly exceed any benefit derived. The College has placed emphasis on our user assisted departmental annual reinventory process, and Property Control attempts to perform spot-check re-inventories as time and staffing permits. We understand the rationale for the recommendation pertaining to this, but believe that our alternative methods have proven to be successful in maintaining control of the College's inventory (with the exception of the few isolated instances cited in the draft audit findings).

(OSC) 12. Develop an equipment procedures manual and train equipment managers in equipment controls.

(SUCB) 12. Prior to, and independent of this current audit, we had informed SUNY that this was a pending item. The Property Control supervisor was charged with the responsibility of preparing a procedures manual. The final edition of this manual has been completed. This manual will be presented to the Vice President for Administrative Services for review and approval. It will then be circulated to all staff members, followed by a training session for chairs as well as directors.

(OSC) 13. Require explanations for missing equipment.

(OSC) 14. Investigate the equipment missing from the three departments.

(OSC) 15. Take steps to ensure that departments comply with annual inventory requirements.

(SUCB) 13-15. Before the Property Control Department refers to items as being permanently lost after the initial inspection, we encourage departments to make every effort to determine what happened to the equipment (i.e., surplused, scrapped for parts, held in storage). The Department which reported 105 assets as being "cannot locate" has been in constant contact with the Property Control Manager. This department has since conducted a physical inspection of all of their equipment (including items under the $500 threshold). One of the two other cited departments has also

conducted a physical inventory of their complete inventory. Follow-up meetings have been scheduled and will continue to be held with department heads whose inventories are returned with equipment listed as missing.

The Property Control Office remained in contact with the departments who have not yet returned their inventories. We have documentation to show concerns raised and relevant communications explaining specifics such as, extenuating circumstances that interfered with timely return of inventories. The Physical Plant Department contacted our office to arrange for a meeting to discuss and review their inventory. Again, staffing and time played a role in not returning the inventory.

Accountability for equipment will continue to rest with the user unit head and the appropriate staff. Our users have repeatedly and consistently been instructed to take appropriate measures to protect equipment and follow proper procedures for disposition. It would be an extremely rare occurrence for any of our staff to not take seriously their responsibilities regarding the stewardship of State-owned equipment. Our personnel are very conscientious in their care and use of State-owned equipment, in much the same way as they are with personally-owned items of value.

With staffing reductions in some areas forcing changes in priorities, many departments lack the staff or time to devote to inventory. However, the Property Control Office plans to meet with appropriate SUNY Brockport personnel to try to implement an incentive program to improve compliance with inventory requirements.

(OSC) 16. Report all unaccounted for equipment to the Office of the State Comptroller.

(SUCB) 16. Every possible effort is made by our office to avoid retiring an asset from the inventory unless all measures have failed in locating the equipment.

Historically, all lost and stolen equipment was reported to OSC. Due to a misinterpretation by a new supervisor, unaccountable items were not reported. This situation was corrected in November 1994 and all equipment that has been reported as "unaccountable" and retired from the PCS will be reported in a timely fashion to OSC.

In 1993 the Property Control supervisor made an administrative decision to retire several assets from the PCS if the department reported the items as missing over a long period of time. It was noted that if the items were recovered the user department would notify Property Control immediately, and the items(s) would be

re-added to the PCS. This step was taken in an effort to "clean up" files that had included "unaccounted for equipment" for many years.

(SU) 11-16. We agree with the recommendations and the College's responses.

State Comptroller's Note

Certain matters addressed in the draft report were revised in the final report.